Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	
Universal Service	)	CC Docket No. 96-45
	)	

Comments of the

Regulatory Commission of Alaska

Date: September 30, 2005

/s/
Kate Giard, Chairman

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The Regulatory Commission of Alaska appreciates an opportunity to respond to the Public Notice (FCC 05J-1) of the Federal-State Joint Board on Universal Service seeking comment on specific proposals to modify the rules related to high-cost universal service support. We support many aspects of these proposals while suggesting a more cautious approach in certain instances.

<u>1. The Alaska Exemptions under the Baum and Billy Jack Gregg Proposals are in the Public Interest if Either Proposal is Adopted. Alaska Costs Cannot Accurately Be Reflected Under A Model.</u>

As demonstrated in our October 15, 2004 comments filed in this docket, it would be extremely difficult to develop a forward-looking model that yielded accurate cost estimates throughout rural Alaska given the unusual circumstances faced in our state. Most of rural Alaska is typified by small, remote villages with low population. About 40 percent of all exchanges in Alaska serve under 100 access lines and 83 percent of the exchanges operate under 1000 access lines. Cost of service is also affected by a minimal road system. While Alaska is comparable in size to Texas, California, Oregon, and Washington combined, it has about the same number of miles of road as Vermont. Alaska's limited number of roads makes access to and construction and maintenance of facilities in rural areas both difficult and costly. Costs in Alaska are also often affected by several climatic factors including a) the duration of the winter as it affects and limits construction and maintenance; b) snow effects (e.g., snow drifts and loading); c) wind load; d) cold temperature as it affects both construction and work crews; e) freeze-thaw cycles (e.g., frost heaves, pole jacking); f) mean storm tracks and storm frequency; and g) permafrost, discontinuous permafrost, and other matters. It would be extremely difficult to develop a model (either forward looking or embedded) that would adequately take into consideration all of these factors.

Given our concerns, we appreciate the efforts by both Commissioner Baum and Joint Board Member Billy Jack Gregg in recognizing Alaska's unique characteristics and the difficulty of providing universal service in the state. The Baum proposal stated that a model is unlikely to reflect the unique cost drivers such as roadless areas and permafrost that face Alaska. The Billy Jack Gregg (BJG) Stage One proposal would exempt Alaska and other insular areas, due to their unique characteristics, from a) applying the non-rural model to rural companies serving study areas of over 100,000 lines and b) combining commonly owned study areas in the same state. Given Alaska's unique characteristics, we believe such exemptions are reasonable.

We support the Alaska exemption under the Baum proposal given the previously noted concern regarding model accuracy, but also for administrative reasons. We believe it would be burdensome to develop a model and specific model inputs in Alaska given the limited number of Alaskan incumbent local exchange carriers, many of which are small carriers with limited staffing.[1] Any benefits that might be associated with using an Alaska model could well be outweighed by the administrative cost and effort of developing and maintaining such a model. We support determining Alaska universal service costs based on historic data and not models.

The BJG Stage One proposal would exempt Alaska from applying the non-rural model to rural companies serving study areas of over 100,000 lines. We support this aspect of the proposal given our concern regarding use of models for Alaska for universal service fund purposes.[2] The

[1] There are approximately 22 incumbent local exchange carriers in Alaska. For example, Bettles Telephone Co., Bush-Tell, Inc., North Country Telephone Co., and Yukon Telephone Co. each serve under 1000 lines, Few companies in Alaska serve over 20,000 lines

[2] We do not believe there are any rural companies in Alaska currently that serve over 100,000 lines, however a 100,000 rural size limit could be a factor should the Federal Communications Commission require rural companies to consolidate study areas for purposes of determining

BJG Stage One proposal also would exempt Alaska from combining commonly owned study areas in the same state. We believe this exemption is appropriate. Our state is vast and as indicated in our earlier comments, combining study areas would inappropriately treat separate legal entities with substantially different characteristics and service areas as one company for purposes of universal service funding.[3] If applied to Alaska, such a policy would reduce levels of critical support to rural areas, lead to higher local rates in rural Alaska, increase incentives for a holding company to sell off rural properties, and reduce incentives to build and maintain infrastructure. We therefore support an exemption for Alaska from any requirement to merge study areas for universal service fund purposes.

In summary, we support the Alaska exemptions allowed for under the Baum and BJG proposals and thank the Joint Board Members for their consideration.

2. Model Results Should Not Be Used As An Upper Bound For Allowable Universal Service Costs As Proposed Under the USERP Plan.

The Universal Service Endpoint Reform Plan (USERP) would provide universal service support based on embedded costs, subject to a limit to reduce incentives for wasteful spending. The USERP proposal suggests

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universal service funding.

that such a limit could be based on the output of a forward-looking cost model or based on "best in class" standards.[4]

As indicated earlier, we believe there are significant difficulties in developing a forward-looking economic cost model that would be able to reliably and accurately predict costs for small rural telephone companies in Alaska. As a result, we believe such a model would also be inappropriate as a means for setting an upper limit to determine if wasteful spending had occurred. If the USERP plan is adopted, including its proposed upper limit on expenses, we recommend that a "best in class" standard rather than a forward-looking model standard be used. In addition, any "best in class" standard should recognize that costs may vary by region, by size of company, and by other factors. For example, it would be unreasonable to apply the same "best in class" standard to both large utilities that benefit from economies of scale and small utilities that lack such economies of scale. As another example, any "best in class" standard should recognize regional differences in costs (e.g., labor rates, dependency on air travel for provision and maintenance of service).

<u>3. While It May Be Reasonable To Move Large Rural Companies To A</u>

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[3] RCA Comments filed October 15, 2004 in CC Docket No. 96-45.

[4] Our understanding is that a "best in class" standard would consider the reasonable and typical historical costs of providing a specific function.

Model Approach, Small Rural Companies Should Remain Under An Embedded Cost Mechanism.

Under the BJG Stage One proposal, large rural companies over 100,000 lines would receive universal service support based on the non-rural model, but without applying the statewide averaging procedure applied to non-rural companies. We have supported a 100,000 line limit in the past and support this aspect of the BJG proposal. Companies with such large numbers of access lines likely do not fit the true characteristics of a rural area.

4. It Is Fairer To Base Universal Service Support For Small Rural Companies on Company Specific Costs Rather Than State Specific Costs. Do Not Adopt A State Block Grant Approach.

A number of the proposals included in the public notice are based on a state block grant approach where the Federal Communications Commission (FCC) would allocate a share of universal service support to each State based on statewide costs compared to one or more benchmarks. States would be responsible to allocate the "block grant" funding between companies within the state. The block grant concept explained by the USERP plan was that states should generally be responsible for costs within their own boarders while the FCC would be responsible for support necessary to balance costs between states. This contrasts to the current system where universal service support is generally developed based on individual company costs without consideration of statewide costs.

The concept that each state should be responsible for the costs within its own boarders is not necessarily reasonable when applied to the rural universal service mechanism. Universal service is a national goal by which all consumers benefit regardless of the state where they reside. Customers in Florida benefit by the ability to call customers in Alaska and vice versa. As customers nationwide benefit by universal service, regardless of what state they live in, it is unreasonable to place an artificial boundary (i.e., the state geographic area) as the dividing line between state and federal universal service responsibilities.

Not all states would have equitable responsibilities for universal service under this system. Alaska would be given responsibility for supporting universal service costs within its state boundary of 615,000 square miles. In contrast ten states would be given cost responsibility within state borders of less than 30,000 sq. miles.[5] Twenty seven states have state boundaries one tenth the size of Alaska.[6] We have attached a map of Alaska superimposed on the contiguous United States to illustrate our point.

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[5] For example Delaware has a 5,544 square mile state boundary and New Hampshire has a 9,283 square mile state boundary.

[6] All state area information was obtained from Table !-1 of the State and Metropolitan Area Data Book, U.S. Census Bureau, *the Official Statistics*, September 2, 1998.

In addition to the difference in areas, many of the states with relatively small geographic areas also have double or greater the residential population of Alaska, making it easier for these states to internally generate funds to support universal service.[7] We therefore view a requirement to determine federal universal service support based on state geographic boundaries to be inequitable and arbitrary.

Any state block program should also recognize that a state's universal service program can impose significant burdens on urban customers within that state. Further, if states must internally fund a large portion of the costs of universal service; rural, high-cost, less densely populated states would unfairly shoulder more burden than low-cost, urban states. The USERP plan includes a Part II Support provision which we believe is an admirable concept to ensure that no one state is overly burdened by responsibilities towards national universal service goals. Some limit on the potential burden placed on states should be considered in any state block grant approach.

We note that further review of the USERP Part II support mechanism should occur to determine the extent to which it achieves its goal

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[7] See USA Statistics in Brief 2004-2005, Resident Population of States and DC, U.S. Census Bureau. For example, Alabama has a population of 4.4 M and an area of 52,000 square miles and Ohio has a population of 11.4 M and an area of 45,000 square miles. In comparison Alaska's limited population of 655,435 residents would be responsible for funding

of ensuring that states are not unfairly burdened relative to one another and to determine the ultimate effect on rates. For example, there is no data to indicate how well the Part II support functions. In addition, a spreadsheet illustrating the Part II support calculation did not appear to be included in the Public Notice. We believe a review of the burden on states and the effect on rates is critical not only for the Part II support, but for any new proposal regarding rural universal service funding before the proposal is adopted.

5. Any Local Revenue Or Rate Benchmark Under The Baum, BJG, Or Nelson Proposal Should Take Into Consideration Demographic Factors, Affordability, Effect on Local Rates, and the Comparability Of Calling Scope.

Most of the state block grant approaches would compare statewide costs to a benchmark. The Baum proposal would set a rate benchmark representing the amount that local customers are expected to pay towards supporting the costs of the local network serving them, up to a level at which the price of supported services would not be affordable and reasonably comparable, as required by Section 254. The Baum proposal recognized that affordability varies across states based on economic and demographic factors such as household income and cost of living. As a result, the Baum proposal benchmark would be established on a state-by-

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the state portion of universal service over an area of 615,000 square miles.

state basis.

If a revenue or rate benchmark is to be used, we agree the benchmark should not be set assuming a “one-size-fits-all” approach. For example, there are many areas of rural Alaska where the per capita income is very low. It would not be appropriate to apply a national benchmark to areas that may find the benchmark unaffordable. We therefore support the concept under the Baum proposal that any benchmark should be appropriately tailored and may require adjustment from state to state. However, the Baum proposal does not go far enough to address the requirements of Section 254 of the Act. Section 254 not only requires that rates for supported services be affordable, but that the rates be reasonably priced[8] and that consumers in rural areas of the nation have access to services that are comparable to rates found for similar services in urban areas.[9] The goals of Section 254 will not be met if the benchmark results in rates that are not comparable. To be comparable, consideration must be given to differences in calling scope. It would be unreasonable and inconsistent with the rate comparability provisions of Section 254 to apply the same local rate benchmark in an area where consumers can reach over a million access lines through placing a local call and an area where customers can reach less than 500 access lines. We

[8] 47 U.S.C. §254(b)(1).
[9] 47 U.S.C. §254(b)(3).

request that any revenue or rate benchmark adopted for the proposals before the Joint Board should provide for adjustment to the benchmark to take into account limitations on local calling scope.

6. Of The Proposals, The BJG Stage One Proposal Is The Most Reasonable.

As indicated earlier, we do not support those proposals that advocate a block grant approach where federal support is basetain aspects of the various proposals under consideration, we cannot fully support the Baum, the BJG Stage Three, the Nelson, or the USERP proposals. Of the proposals before the Joint Board, we believe the BJG Stage One proposal offers the best approach. The approach appropriately recognizes that small and large rural companies may deserve different treatment due to their nature. Under the BJG Stage One proposal, larger rural companies (those over 100,000 lines) are dealt with similarly to non-rural companies while the small rural companies remain essentially under an embedded cost support system. We believe this is appropriate. The BJG Stage One approach has the advantage that it could be implemented fairly quickly and without the need for lengthy proceedings to develop controversial plan details. For example, the BJG Stage One proposal does not require the development of a revenue or rate benchmark or a model, unlike many of the other proposals. We therefore encourage further consideration of the BJG Stage One proposal.

7. Any Proposal Adopted Should Recognize the Rural Difference.

The Nelson, USERP, and BJG Stage 3 proposals each contemplate treating rural companies and non-rural companies under a common system. We do not dispute that non-rural companies serve rural areas and that perhaps some consideration should be given to that fact. However, it is unreasonable to treat small rural companies and large non-rural companies identically as is contemplated under a number of the proposals. As summarized in Appendix A to the Rural Task Force's White Paper 4, released September, 2000, there are numerous and profound differences between rural and non-rural carriers. For example, rural carriers' operations tend to be focused on more geographically remote areas of the nation with widely dispersed populations. The average population density for rural carriers is 13 persons per square mile versus 105 for non-rural carriers. Among other things the Rural Task Force noted that rural carriers a) have relatively high loop costs because they lack economies of scale and density; b) experience difficulties associated with serving isolated and remote locations; c) experience substantially higher plant specific and operations expenses than non-rural carriers; and d) experience significant variation in study area size and customer base from rural carrier to rural carrier.

Attempting to craft one policy to address the diverse needs of both rural and non-rural companies is not clearly necessary and will likely result in meeting neither's needs well.

8. Any Proposal, Such As The USERP Proposal, Which Contemplates Support For Transport Should Take Into Account Alaska's Unique Network Structure Where Most Transport Is Not Provided By The Local Carriers.

The USERP proposal would provide for universal service support based on a consideration of loop, port, switching, and a variety of other costs including transport. If the Joint Board determines that high transport costs should be supported, then it should take into account the unique structure in Alaska whereby transport is typically not provided by the local carrier. In Alaska, the transport function between exchanges is provided by interexchange carriers.[10] Alaska should not be denied transport support because of the historical manner in which services evolved in Alaska. In Alaska, transport substantially increases the costs of critical services provided to rural customers.[11] We ask that the Joint Board consider transport support for interexchange carriers in Alaska if it determines that substantially similar forms of transport services merit universal service funding.

9. The USERP Proposal Regarding Treatment of Wireless ETCs

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[10] Alaska is not served by a Bell Operating Company nor does Alaska have LATAs. Unlike the rest of the nation, local carriers in Alaska do not provide transport between exchanges except in certain of the more urban areas of the state.

[11] In Alaska such transport is typically provided by satellite or microwave systems and may span great distances.

Deserves Further Review.

The USERP proposal contemplates a fundamental change in how wireless ETCs would receive federal universal service support. Rather than providing wireless ETCs with the same amount of support per line as the incumbent local exchange carrier, the USERP proposal would provide support to wireless carriers through a separate “Portability Fund”. The fund would be subject to a sunset and capped at $1 Billion per year, an amount greater than the current projected $800 million competitive eligible telecommunications carriers are projected to receive in 2005.

Under this proposal funds would be allocated to each state and then the state would sub-allocate the funds to wireless carriers using a competitive grant method in response to proposals submitted by carriers to increase coverage to unserved areas and unserved roads. Carriers would be required to show that all funds had been properly expended.

While we believe that further refinements and adjustments of this proposal may be needed, in concept it would appear to have many advantages, including providing stronger accountability between receipt and use of funds. The proposal may better ensure that scarce funding resources assist those areas with the greatest need, namely the unserved areas.

Conclusion

We commend the Joint Board for its work in developing a variety of proposals to improve the existing rural high cost mechanism. We believe that certain aspects of each proposal have merit, however we believe the BJG Stage One proposal to be the most reasonable.

RESPECTFULLY SUBMITTED this 30th day of September, 2005.

/s/

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Attachment 1